

Learning from the Past and Preparing for the Future

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It's wonderful to be in London, one of the world's most important and historic cities. In my country, if a building reaches 100 years old, it's historic. A 200-year-old building can become an object of reverence and often merits its own commemorative plaque. After all, the White House, which is one of the oldest structures in my current home base of Washington, D.C., only dates to 1799.

But walk down a street in London and you might find a medieval hall like the one here at Gresham College. Or there may be a Christopher Wren church or even a wall from Roman times.

It's heartening to see how you've preserved and honored your past. And that brings me to my theme this evening: the need to learn from the past and prepare for the future.

One key lesson of history is that change is inevitable. Britain governed much of the world in the 18th and 19th centuries. With good reason, Rudyard Kipling called it the empire on which the sun never set.

Many historians have termed the 20th century the American Century. And it's true that in recent decades, America's economic, military, foreign policy, and cultural impact have been felt around the globe. However, I would note that America's superpower status has thus far not expanded to include the soccer field!

But it would be foolish to think that America's status as the world's only superpower will continue indefinitely. In fact, it's highly likely that in the next 20 years we'll see the emergence of one or more additional superpowers. The key question is: which nation or nations will join the United States to help define the 21st century?

The United States has existed as a republic for a little more than 200 years. In the context of both British and world history, I know that's not a long time. Looking back in western history, the Roman Republic endured for about 500 years before it finally fell. The American experiment in representative government has so far lasted less than half that time. God willing, our republic will endure and stand the test of time.

Three reasons for the demise of the Roman Republic seem particularly relevant today. The first was a decline in moral values and political comity at home. The second was over-confidence and over-extension abroad. The third was fiscal irresponsibility by the central government. These reasons seem all too familiar today. We should learn from them so that history doesn't repeat itself.

History also proves that past foes sometimes turn out to be steadfast friends. A vivid example is the changing relationship between our two countries. As a history buff and someone with ancestors who fought and died during the American Revolution, I find this subject particularly fascinating.

The American colonies and England were at war in 1776, and we were at war again as recently as 1815. But today, the U.S. and the U.K. are strong allies on many issues around the world, whether it's fighting terrorism, promoting democracy, helping victims of natural disasters, or developing global accounting principles. I can assure you that this special relationship between our two nations means a lot to America and to Americans. On a personal level, I consider Sir John Bourne, the Comptroller and Auditor General of the United Kingdom, to be both a professional colleague and a personal friend.

Unfortunately, in today's world, the lessons of history all too often seem to fall on deaf ears. We live in a world consumed with the here and now. Far too little thought is given to what's come before or what lies ahead. Clearly, this is a risky approach to life and public policy. I'm reminded of the famous remark from the philosopher George Santayana, who said "those who cannot remember the past are condemned to repeat it."

While we can draw valuable lessons from the past, we also need to stay alert to current, emerging, and future challenges. The United States and many other countries now face a range of trends without geopolitical boundaries. These issues include terrorism, globalized capital markets, natural disasters, energy and environmental concerns, infectious diseases like AIDS and avian flu, and a growing and unhealthy gap between the haves and the have-nots.

Despite these shared trends and challenges, too many countries, companies and individuals today suffer from the dual afflictions of myopia, better known as shortsightedness, and tunnel vision. Namely,

- Too many individuals focus on their next paycheck.
- Too many companies focus on the next quarterly earnings report.
- Too many politicians focus on the next election cycle rather than the next generation.
- And, too many countries focus on their position in the world rather than realizing that we are all inhabitants of this planet.

In the private sector, large multi-national corporations are driving much of today's global economy. These firms are headquartered in various countries but they tend to have little to no loyalty to any particular country. Instead, their main concerns tend to be their return on investment, their current stock price, and their executive compensation packages. But the truth is that more of these companies need to take the long view and

consider the broader impact they're having on our world, whether it's economic, environmental, societal, or cultural. The same can be said for the need for countries to consider the longer-term implications of their current policies, programs, and proposed actions.

By considering the long-term implications of current trends and proposed policies, we can capitalize on opportunities and reduce the risks that lie ahead. Partnering among nations on both a bi-lateral and multi-lateral basis will be essential. Candidly, many nations, including the United States, are facing rough seas ahead. We're going to need to start rowing together or else we risk sinking separately.

Frankly, it's time more of us focused on the word "we" rather than the word "me". Because the truth is, with the complicated problems our world is facing, nations, institutions, and individuals cannot afford to go it alone. We must join forces with others and apply our collective expertise to solve shared challenges.

Governments especially must move beyond longstanding but often ineffective ways of doing business. Politicians and civil servants must be willing to reach across institutional and geopolitical lines to share knowledge and experience. Partnerships can be forged not only among various government agencies but with businesses and nonprofit groups. This approach can and should be used domestically as well as internationally.

Fortunately, more countries are recognizing the need to partner for progress. As never before, Europe is working together and making strides on a range of issues of mutual interest and concern. So far, we've seen important reforms in areas like public finance, immigration, and the capital markets.

Some of us in America are also trying to partner for progress. For example, I shared my views on various current and emerging accountability challenges at CIPFA's annual meeting in Harrogate yesterday. In addition, one of the reasons I'm in London is to attend a briefing on financial management and program planning at your Ministry of Defense. Hopefully, we'll be able to use some of these strategies back in the states.

As to the tendency to focus on today, in my country strong economic growth, modest inflation levels, relatively low interest rates, and our current status as the only superpower have given both policy makers and the public a false sense of security about the future. Too many Americans have lost sight of very real domestic challenges and the obligations that exist beyond our borders.

For example, in the coming decades, the United States and many other industrialized nations will begin to feel the impact of powerful demographic trends, including an aging population and slowing workforce growth. Among other things, this trend, along with rapid advances in medical technology, is fueling an unprecedented rise in health care costs.

The so-called "baby boom generation" – those born between 1946 and 1964 – is on the brink of retirement. In just two years, the first "boomers" will be eligible for early retirement under the U.S. government's social insurance pension system, Social Security. In just five years, they will qualify for Medicare, the U.S. government's social insurance health care program for retirees. The growing costs associated with these social insurance programs could swamp our ship of state unless policymakers get serious and begin to undertake meaningful reforms soon.

On a per capita basis, the United States spends about double what the United Kingdom spends on health care. Unfortunately, it's pretty clear that we Americans aren't getting a very good return on our health care investment. America's health care system is plagued by large gaps in coverage, increasing numbers of uninsured people, and below-average outcomes on basic measures like medical error rates, infant mortality, and life expectancy. At the same time, America is number one in the world when it comes to obesity. No one else is even close!

Health care reform in the United States won't be easy, but it's essential. What's needed is greater personal responsibility on the part of individuals, more incentives for doctors and patients to make prudent choices about medical coverage and treatments, improved transparency on the quality and cost of care, and stronger accountability for health care plans and providers.

Today, America now faces not one but four significant deficits. These four deficits have serious implications for America's continuing role in the world and its standard of living at home.

The first deficit is our federal budget deficit, which last year totaled \$318 billion on a cash basis and \$760 billion on an accrual basis. But the real problem is our government's unfunded commitments for social insurance programs. I'm talking here about future Social Security and Medicare benefits. Other long-term challenges include costly environmental cleanups and potential payouts by entities like the federal Flood Insurance Program and the Pension Benefit Guaranty Corporation. These items exceeded \$46 trillion at the end of fiscal year 2005, up from just \$20 trillion just five years earlier.

This translates into a burden of about \$375,000 for every full-time American worker. It's the equivalent of a \$750,000 mortgage for a two-income household—without the house! Unfortunately, because of continuing deficits, known demographic trends, and compounding interest costs, those numbers are rising every second of every minute of every day.

The second deficit is our savings deficit. Clearly, many Americans are following the bad example set by their government. These individuals are living beyond their means and are deeply in debt. In fact, for the first time since 1933, Americans last year collectively spent more than they earned. Students of history recall that 1933 was not a good year for the United States or for the world. In fact, it was the depth of the Great Depression!

Americans' willingness to pile on both personal and public debt is particularly alarming in an aging society. Those Americans who fail to plan, save, invest well, and preserve their money for retirement are putting their future retirement security at risk.

This brings me to America's third deficit, our overall balance-of-payments deficit. The United States simply consumes more than it produces. In 2005, the U.S. trade deficit hit a record high of \$726 billion, twice what it was just four years earlier.

Our "salvation" has been a flood of investment money coming from overseas. Thanks to the high savings rate in China, Japan, the United Kingdom, OPEC states, and elsewhere, it's been relatively cheap for Americans to borrow. The catch is that these foreign investors are holding a growing share of my nation's mortgage. Imagine what would happen if these foreign investors suddenly curtailed their purchases or, worse yet, started to sell their U.S. securities.

Finally, there's America's fourth deficit, and it may be the most serious and sobering of all. Our leadership deficit. Too few elected officials have been willing to heed the past, speak the truth about the problems ahead, and make hard choices to put our fiscal house in order. Instead, my government's continuing lack of fiscal discipline and business-as-usual attitude in recent years has made America's long-term situation much worse.

In my view, the first order of business is to restore fiscal discipline. Responsible public officials have got to stop digging America's fiscal hole deeper. We need to impose meaningful budget controls on both the spending and tax sides of the ledger. Members of Congress should also have more explicit information on the future costs of both spending and tax legislation—before they vote on it. A case in point is the new Medicare prescription drug benefit, whose staggering long-term costs weren't even considered during the congressional debate.

It also matters how a nation keeps score. Ironically, America tends to be more open and transparent than much of the world when it comes to its finances. Even so, the United States needs to further improve its federal accounting and reporting model to more clearly convey the long-term sustainability of current government programs and policies. This new model should also explain the implications for different generations of Americans.

To manage risks and capitalize on opportunities in the 21st century, the U.S. government also needs to begin a fundamental review and reassessment of all major federal spending programs, tax policies, and operational approaches. This is essential for returning America to a strong and sustainable fiscal path.

The fact is that many nations face some degree of long-term fiscal risk. For example, a 2005 European Union report warned of unsustainable public finances in about half of the European Union member states primarily because of the growing old-age dependency ratio. This is where Supreme Audit Institutions (SAI) can help. SAIs are equipped to get the facts on the table and provide policymakers with timely, reliable and objective information.

Over the years, government auditors have earned a reputation for independence and professionalism. I believe SAIs can leverage this competence and credibility to help address the long-term trends I have just described. SAIs are well positioned to "speak truth to power" and help governments not just focus on today but plan for tomorrow.

Most governments have a Supreme Audit Institution. In the case of the United States, it's my agency, the Government Accountability Office (GAO). In the case of the United Kingdom, it's the National Audit Office (NAO).

SAIs have traditionally been in the oversight business. As government watchdogs, SAIs scrutinize how taxpayer dollars are spent and advise policymakers on ways to make government work better. This has been and probably always will be our primary role.

But increasingly, SAIs can and should add value by providing public officials with insight and foresight into current, emerging, and longer-term issues. Namely, insight obtained from performance and value-for-money audits can help determine which government policies and programs work and which ones don't. In addition, foresight analyses can help elected officials deal with emerging issues before they reach crisis proportions.

Today, SAIs have an opportunity to encourage sound and sustainable policy choices. These choices are more likely when policymakers are equipped with solid facts and nonpartisan analyses rather than partisan political spin.

In this spirit, GAO has published an unprecedented report called "21st Century Challenges" that makes clear that many U.S. government programs and policies are based on conditions that existed decades ago. Candidly, I doubt the U.S. government is alone in this respect. You can find this report and many other GAO products on our website at www.gao.gov.

Let me give you some examples. The definition of "disability" used in most federal assistance programs hasn't been updated since the 1940s. Job classification and pay systems for most federal workers are based on management and compensation models from the 1950s. The Medicare program largely reflects health care insurance designs of the 1960s. And some U.S. weapons systems were designed to meet the security threats of the Cold War.

At the same time, government continues to expand, with new projects and initiatives added every year. Congress and the White House rarely seem to question the wisdom of existing federal activities. As President Ronald Reagan once said, "The nearest thing to eternal life we'll ever see on this Earth is a government program."

The same goes for many tax policies. For example, just last month, my government announced it will stop collecting a three-percent tax on long-distance telephone calls. This doesn't seem particularly startling, until you realize the tax had been introduced in 1898 to help pay for the Spanish-American War!

Nothing less than a top-to-bottom review of federal activities is needed to determine if they are meeting their objectives. This is true for both the spending and the tax sides of the ledger. Congress and the President need to decide which policies and programs remain priorities, which should be overhauled, and which have simply outlived their usefulness. Candidly, other countries need to do this as well.

America is a rich country. But being rich doesn't mean that we have unlimited resources. Even in the wealthiest nations, policymakers have to make informed choices among competing, often worthy, alternatives. Ultimately, these decisions should be based on what's best for a nation and its citizens. And no nation can afford to consistently spend more than it takes each in year. Eventually, the bill and its accumulated interest costs must be paid.

Transforming the U.S. government will take a generation or more to complete, but the time to start is now. What's at stake are America's future economic growth, future standard of living, and future national security. Undoubtedly, many other nations could also benefit from rethinking what their governments do and how they do business.

If we expect to successfully tackle issues like health care, immigration, education, energy, and the environment, we will need more leaders in the United States and around the world with several key attributes. These attributes are courage, integrity, creativity and stewardship. By courage, I mean people who state the facts, speak the truth, and do the right thing even though it isn't easy or popular. By integrity, I mean people who practice what they preach and lead by example. We need people who understand that the law and professional standards represent the floor of acceptable behavior. It's time all of us set our sights higher and do what's right. By creativity, I mean people who can think "outside the box" and see new ways to address old problems while helping others to see the way forward. Finally, by stewardship, I mean people who leave things not just better off but better positioned for the future when they depart their jobs and this earth.

In closing, for more than 400 years, the faculty here at Gresham College has been giving free public lectures. I couldn't agree more with your mission of sharing knowledge and educating others. As Comptroller General of the United States, a father, grandfather and a student of history, I feel the need to speak out about certain challenges that face America and our world. I hope that others in my country, here in Britain, and elsewhere will also begin to speak up and demand that their leaders learn from the past and prepare for the future. It's in our collective best interests for them to do so. If we do, we can help to ensure that our individual and collective tomorrows will be better than today.

Thank you for your time and attention.